

examine a return of the deceased spouse to make determinations with respect to such amount for purposes of carrying out this subsection.

“(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out this subsection.”

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 2505(a) is amended to read as follows:

“(1) the applicable credit amount in effect under section 2010(c) (determined as if the applicable exclusion amount were \$1,000,000) which would apply if the donor died as of the end of the calendar year, reduced by”.

(2) Section 2631(c) is amended by striking “the applicable exclusion amount” and inserting “the basic exclusion amount”.

(3) Section 6018(a)(1) is amended by striking “applicable exclusion amount” and inserting “basic exclusion amount”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying, generation-skipping transfers, and gifts made, on and after the date of the enactment of this Act.

**SEC. 305. EXCLUSION FROM GROSS ESTATE OF CERTAIN FARMLAND SO LONG AS FARMLAND USE BY FAMILY CONTINUES.**

(a) IN GENERAL.—Part III of subchapter A of chapter 11 is amended by inserting after section 2033 the following new section:

**“SEC. 2033A. EXCLUSION OF CERTAIN FARMLAND SO LONG AS FARMLAND USE BY FAMILY CONTINUES.**

“(a) IN GENERAL.—In the case of an estate of a decedent to which this section applies, the value of the gross estate shall not include the adjusted value of qualified farmland included in the estate.

“(b) ESTATES TO WHICH SECTION APPLIES.—This section shall apply to an estate if—

“(1) the executor—

“(A) elects the application of this section,

“(B) files an agreement referred to in section 2032A(d)(2), and

“(C) obtains a qualified appraisal (as defined in section 170(f)(11)(E)(i)) of the qualified farmland to which the election applies and attaches such appraisal to the return of the tax imposed by section 2001,

“(2) the decedent was (at the date of the decedent's death) a citizen or resident of the United States,

“(3) the decedent for the 3-taxable-year period (10-taxable-year period in the case of any qualified farmland which is qualified woodland described in section 2032A(c)(2)(F)(i)) preceding the date of the decedent's death had an average modified adjusted gross income (as defined in section 86(b)(2)) not exceeding \$750,000,

“(4) 60 percent or more of the adjusted value of the gross estate at the date of the decedent's death consists of the adjusted value of real or personal property which is used as a farm for farming purposes (within the meaning of section 2032A(e)),

“(5) 50 percent or more of the adjusted value of the gross estate consists of the adjusted value of qualified farmland which is real property, and

“(6) during the 10-year period ending on the date of the decedent's death—

“(A) the qualified farmland which is such real property was owned by the decedent or a member of the decedent's family, and

“(B) there was material participation (within the meaning of section 469(h)) by the decedent or a member of the decedent's family in the operation of such farmland.

“(c) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED FARMLAND.—The term ‘qualified farmland’ means any real property—

“(A) which is located in the United States,

“(B) which is used as a farm for farming purposes (within the meaning of section 2032A(e)),

“(C) such use of which is not an activity not engaged in for profit (within the meaning of section 183),

“(D) which was acquired from or passed from the decedent to a qualified heir of the decedent and which, on the date of the decedent's death, was being so used by the decedent or a member of the decedent's family, and

“(E) which is property designated in the agreement filed under subsection (b)(1).

“(2) ADJUSTED VALUE.—The term ‘adjusted value’ means the value of farmland for purposes of this chapter (determined without regard to this section), reduced by any amounts allowable as a deduction in respect to such farmland under paragraph (3) or (4) of section 2053(a).

“(3) OTHER TERMS.—Any other term used in this section which is also used in section 2032A shall have the same meaning given such term by section 2032A.

“(d) ANNUAL INFORMATION RETURN TO THE SECRETARY.—

“(1) IN GENERAL.—The qualified heir of any qualified farmland shall file an information return (at such time and in such form and manner as the Secretary prescribes) for each calendar year.

“(2) CONTENTS OF RETURN.—The information return required under paragraph (1) shall set forth any disposition of any interest in such farmland or any cessation of use of such farmland as a farm for farming purposes and such other information as the Secretary may require.

“(e) IMPOSITION OF RECAPTURE TAX.—

“(1) IN GENERAL.—If—

“(A) at any time after the decedent's death and before the death of the qualified heir—

“(i) the qualified heir disposes of any interest in qualified farmland (other than by a disposition to a member of the qualified heir's family),

“(ii) the qualified heir or member ceases to use the qualified farmland as a farm for farming purposes,

“(iii) the qualified heir or member incurs a nonrecourse indebtedness secured in whole or in part by a portion of the qualified farmland, or

“(iv) the qualified heir or member fails to file the information return with respect to the qualified farmland required under subsection (d) for 3 successive calendar years, or

“(B) upon the death of the qualified heir or member, the executor of the estate of such heir or member does not elect the application of this section with respect to the qualified farmland,

then, there is hereby imposed a recapture tax with respect to such qualified farmland or such interest in or portion of such qualified farmland.

“(2) APPLICATION OF RECAPTURE TAX TO EARLIER GENERATIONS.—Upon the imposition of a recapture tax under paragraph (1) with respect to such qualified farmland or such interest in or portion of such qualified farmland, there is also imposed an aggregate amount of any recapture tax which would have been determined under this subsection with respect to such farmland, interest, or portion if the such tax had been imposed and paid on the date of death of the decedent and on the date of death of any qualified heir (or member) of such farmland, interest, or portion in any intervening generation.

“(3) AMOUNT OF RECAPTURE TAX, ETC.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), rules similar to the rules of section 2032A(c) (other than paragraphs (1) and (2)(E) thereof) with respect to the addi-

tional estate tax shall apply for purposes of this subsection with respect to each recapture tax.

“(B) ADJUSTMENTS TO RECAPTURE TAX.—

“(i) ADJUSTMENT TO REFLECT INCREASE IN VALUE OF INTEREST.—Subject to clause (ii), the amount of the recapture tax otherwise determined under rules described in subparagraph (A) shall be increased by the percentage (if any) by which the value of the interest in the qualified farmland at the time of the imposition of such tax is greater than the adjusted value of such farmland at the time such farmland would have been included in the estate if no election under this section had been made.

“(ii) ADJUSTMENTS TO VALUE OF INTEREST AT TIME OF TAX IMPOSITION.—For purposes of determining the value of the interest in the qualified farmland at the time of the imposition of such tax, such value shall be reduced (under rules prescribed by the Secretary) by—

“(I) the basis of any substantial improvements made with respect to such interest by the qualified heir or member, and

“(II) the aggregate amount of any recapture tax imposed under paragraph (2).

“(f) APPLICATION OF OTHER RULES.—Rules similar to the rules of subsections (d), (e) (other than paragraphs (6) and (13) thereof), (f), (g), (h), and (i) of section 2032A shall apply for purposes of this section.

“(g) REGULATIONS.—The Secretary may issue such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including the application of this section in the case of multiple interests in qualified farmland, and to prevent fraud and abuse under this section.”

(b) BASIS OF QUALIFIED FARMLAND FOR PURPOSES OF DEPRECIATION OR DEPLETION BY QUALIFIED HEIR.—Section 1014 is amended by adding at the end the following new subsection:

“(f) BASIS OF QUALIFIED FARMLAND FOR PURPOSES OF DEPRECIATION OR DEPLETION BY QUALIFIED HEIR.—For purposes of the allowance to any qualified heir of any depreciation or depletion deduction with respect to any interest in property acquired from a decedent and subject to an election under section 2033A, the basis of such property in the hands of such qualified heir (or member of the qualified heir's family after a disposition described in section 2033A(e)(1)(A)(i)) shall be the adjusted basis of such property in the hands of the decedent immediately before the death of such decedent.”

(c) PENALTY FOR FAILURE TO FILE ANNUAL INFORMATION RETURN.—Section 6652 is amended by redesignating subsection (m) as subsection (n) and by adding at the end the following new subsection:

“(m) FAILURE TO FILE ANNUAL INFORMATION RETURN.—In the case of each failure to provide an information return as required under section 2033A(d) at the time prescribed therefor, unless it is shown that such failure is due to reasonable cause and not to willful neglect, there shall be paid, on notice and demand of the Secretary and in the same manner as tax, by the person failing to provide such return, an amount equal to \$250 for each such failure.”

(d) WOODLANDS SUBJECT TO MANAGEMENT PLAN.—Paragraph (2) of section 2032A(c) is amended by adding at the end the following new subparagraph:

“(F) EXCEPTION FOR WOODLANDS SUBJECT TO FOREST STEWARDSHIP PLAN.—

“(i) IN GENERAL.—Subparagraph (E) shall not apply to any disposition or severance of standing timber on a qualified woodland that is made pursuant to a forest stewardship plan developed under the Cooperative Forestry Assistance Act of 1978 (16 U.S.C. 2103a)